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DEPARTMENT OF HEALTH SERVICES
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January 22, 2004

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD
Director and Chief Medical Officer

A handwritten signature in blue ink, which appears to read "Thomas L. Garthwaite", is written over the printed name and title.

SUBJECT: HEALTH DEPARTMENT BUDGET COMMITTEE OF THE WHOLE

This is to provide an update on the Department of Health Services' (DHS) fiscal outlook and the status of activities related to the implementation of Scenario III of the Department's system redesign plan.

DHS Fiscal Outlook

The attached schedule provides an update of the Department's Fiscal Outlook since the last Health Department Budget Committee of the Whole of November 25, 2003. The Department's forecast cumulative shortfall through Fiscal Year 2007-08 has declined from \$724.7 million to \$655.3 million. The majority of the reduction in the forecast shortfall can be attributed to revised assumptions regarding salaries and variable and fixed employee benefits, increased vacancies, and anticipated reductions in malpractice costs. Attachments A and B detail the changes in the Department's fiscal forecast.

While the Department's estimated cumulative shortfall in Fiscal Year 2007-08 has decreased to \$655.3 million, there continue to be a number of significant events that could transpire that would substantially alter the fiscal outlook for the worse. As the Department has reported previously, should DHS be unable to close or transfer operation of Rancho Los Amigos National Rehabilitation Center or close 100 inpatient beds at LAC+USC Medical Center by or after June 30, 2005; fail to extend cost-

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based reimbursement for the Department's clinics and hospital outpatient areas beyond the June 30, 2005 expiration of the current 1115 Waiver or obtain Federally Qualified Health Center (FQHC) status; and/or, the federal government re-base the Selective Provider Contracting Program (SPCP) waiver, the cumulative shortfall could grow to be nearly \$1.52 billion in Fiscal Year 2007-08.

Additionally, there are a number of provisions included in the Governor's proposed budget that could have a substantial impact on the Department's budget over the next several years. These include an additional 10 percent reduction in certain Medi-Cal rates and capping enrollments in various health and human services programs, such as the AIDS Drug Assistance Program, California Children's Services, Medi-Cal Non-Emergency Services, and Healthy Families.

At this time, there is insufficient information to quantify the cost impact of these and other proposals put forth in the Governor's budget proposal. Additionally, the State is seeking a Medicaid 1115 Waiver under which it would restructure the California Medi-Cal program. The Director of the California Medi-Cal Program has indicated that their goal is to complete the restructuring by May 2004 and to begin saving \$400 million per year statewide, beginning in Fiscal Year 2005-06. This restructuring, which is yet to be defined, may encompass the SPCP Waiver, which expires in December 2004 and could significantly impact the Department's fiscal outlook.

Implementation of Scenario III

While much of Scenario III was implemented in Fiscal Year 2002-03, there remain several areas in which the requisite savings either have been enjoined by the Federal District Court or have not been achieved.

As you know, the Federal District Court has enjoined DHS from closing Rancho Los Amigos National Rehabilitation Center and the 100 inpatient beds at LAC+USC Medical Center. As you are aware, the Rodde case is scheduled for trial in November 2004 and the Harris case is set for shortly thereafter in January 2005; as a result, the Department has delayed until Fiscal Year 2005-06 the savings associated with these closures. The loss in savings associated with this one-year delay is estimated to be \$85.7 million.

The original projected savings associated with the implementation of Scenario III were \$399.5 million. As a result of the Federal District Court injunction, as well as the savings shortfalls outlined below, the Department is forecasting total savings from Scenario III of \$352.5 million through Fiscal Year 2007-08. The other areas are discussed in greater detail below.

King/Drew Medical Center Savings

Scenario III assumes cumulative annual savings of \$65.7 million by Fiscal Year 2007-08 associated with increased efficiencies at King/Drew Medical Center. The hospital's Fiscal Year 2003-04 target is \$20.9 million in savings. As you know, DHS has assigned senior managers from across the Department to assist in the restructuring of operations at King/Drew Medical Center and one of the areas of focus is on identifying further efficiencies.

The Department continues to believe these savings are achievable, however, given the magnitude of the organizational changes occurring at the facility and the need to make some investments in management and other areas, it is possible that the Department may need to extend the time period for which the \$25.3 million in additional savings targeted for Fiscal Year 2004-05 are achieved.

With regard to the savings assigned to the Southwest Cluster, these targets are expected to be underrealized by approximately \$5-6 million per year. As part of the review and restructuring of King/Drew Medical Center, the Department is looking closely at the allocation of resources across the Cluster to ensure that savings targets are met.

Psychiatric Services

As was discussed in the Department's last forecast, the Scenario III savings target associated with psychiatric services has been reduced from the original amount of \$20.2 million to \$16.5 million, which still may be too high. The Department is continuing to work with the Department of Mental Health to negotiate an increase in reimbursement for the provision of emergency and inpatient psychiatric services in DHS hospitals.

Comprehensive Health Centers Consistent Staffing Model/Efficiencies

The savings targets associated with the implementation of consistent staffing model/efficiencies at the Comprehensive Health Centers are expected to be underrealized by about \$15 million in the current Fiscal Year and about \$8 million per year thereafter. This adjustment is due to refinements in the savings estimate that determined that staffing cuts of that magnitude would result in a reduction of services, rather than efficiencies. The Department continues to evaluate this area to identify additional efficiencies and savings.

Public Health

Similar to the more detailed assessment that was conducted of the viability of the comprehensive health center reductions, the Department concluded that the original savings estimate for Public Health would result in reductions in service, rather than efficiencies. As such, the Public Health cumulative savings targets are expected to be approximately \$1-2 million less per year than the targets.

Office of Managed Care/Community Health Plan

As discussed in the Department's previous forecast reports, outstanding issues related to the applicability of language in L.A. Care Health Plan's enabling legislation pertaining to the recognition of the County's current Memorandums of Understanding with its labor unions continue to contribute to delays in completing negotiations to establish an agreement between the two entities for the provision of administrative services to the Community Health Plan (CHP).

In the meantime, to ensure the continued viability of the CHP, the Department restored \$8 million in funding for CHP for this fiscal year and L.A. Care Health Plan has funded a management consultant to facilitate efforts to strengthen the management and structure of CHP and enhance its operational capacity.

Conclusion

As has been discussed previously, the Department fiscal outlook is extremely variable. There remain a broad range of outstanding federal and state actions that could substantially impact the current budget shortfall over the next several years. The Department continues to work aggressively to achieve the savings identified in Scenario III, and I will continue to keep you apprised of these activities. Please let me know if you have any questions.

TLG:ak

Attachments

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

FISCAL OUTLOOK - 01/20/2004

(\$ IN MILLIONS BASED ON FY 03-04 SUPPLEMENTAL BUDGET RESOLUTION)

Line #	FISCAL YEARS / COLUMNS							TOTAL / (7)
	2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)		
1.	Surplus/Deficit as of June 26, 2002							
2.	Scenario III Reductions / Use of Designation Funds							
	<u>*(see note)</u>	<u>\$ (326.6)</u>	<u>\$ (549.2)</u>	<u>\$ (709.4)</u>				
3.	Original Fiscal Stabilization Revenue Request to help fund Scenario III (Not Budgetary Shortfall by FY)							
	<u>*(see note)</u>	<u>\$ (58.8)</u>	<u>\$ (221.4)</u>	<u>\$ (351.9)</u>	<u>\$ (387.3) ^(A)</u>	<u>\$ (423.7) ^(A)</u>	<u>\$ (1,443.1)</u>	
4.	Forecast Update **							
	<u>263.9</u>	<u>252.8 ^(B)</u>	<u>190.1 ^(C)</u>	<u>75.3 ^(D)</u>	<u>51.9 ^(D)</u>	<u>(80.5) ^(D)</u>		
5.	Forecast Surplus/(Shortfall) ^{(E),(F)}							
	<u>\$ 263.9</u>	<u>\$ 194.0</u>	<u>\$ (31.3)</u>	<u>\$ (276.6)</u>	<u>\$ (335.4)</u>	<u>\$ (504.2)</u>	<u>\$ (504.2)</u>	
6.	Beginning Fiscal Year Fund Balance							
	<u>121.0 ^(G)</u>	<u>353.1 ^(H)</u>	<u>547.1</u>	<u>515.8</u>	<u>239.2</u>	<u>-</u>	<u>-</u>	
7.	Cumulative Year End Fund Balance/(Shortfall) ^{(E),(F)}							
	<u>\$ 384.9</u>	<u>\$ 547.1</u>	<u>\$ 515.8</u>	<u>\$ 239.2</u>	<u>\$ (96.2)</u>	<u>\$ (504.2)</u>	<u>\$ (504.2)</u>	
8.	Defer Rancho Closure (191 beds) to July 1, 2005							
9.	Impact to Beginning Fiscal Year Fund Balance							
	<u>-</u>	<u>-</u>	<u>(49.5)</u>	<u>(105.2)</u>	<u>(105.2)</u>	<u>(105.2)</u>	<u>N/A</u>	
10.	Revised Cumulative Year End Fund Balance/(Shortfall)							
	<u>\$ 384.9</u>	<u>\$ 497.6</u>	<u>\$ 410.6</u>	<u>\$ 134.0</u>	<u>\$ (201.4)</u>	<u>\$ (609.4)</u>	<u>\$ (609.4)</u>	
11.	Defer LAC+USC Medical Center 100 Bed Reduction to July 1, 2005							
12.	Impact to Beginning Fiscal Year Fund Balance							
	<u>-</u>	<u>-</u>	<u>(16.1)</u>	<u>(45.9)</u>	<u>(45.9)</u>	<u>(45.9)</u>	<u>N/A</u>	
13.	Revised Cumulative Year End Fund Balance/(Shortfall)							
	<u>\$ 384.9</u>	<u>\$ 481.5</u>	<u>\$ 364.7</u>	<u>\$ 88.1</u>	<u>\$ (247.3)</u>	<u>\$ (655.3)</u>	<u>\$ (655.3)</u>	

NOTES TO FISCAL OUTLOOK

- * The \$56.8 million of FY 02-03 service cuts are efficiencies already in the FY 02-03 budget base at this point in time and; therefore, doesn't appear on this schedule.
- ** Includes revenues previously shown separately (Measure B, SPCP/UPL Waiver, SB 855, and the Federal portion of the Outpatient Lawsuit Settlement), the current year's portion of which is already included in the FY 03-04 budget.
- (A) These amounts are extrapolations from the original 90% Medicaid block grant request used to determine the fiscal stabilization revenues for the June 2002 DHS Strategic Plan, which only extended through FY 05-06.
- (B) Up to \$20.0M of the FY 03-04 SPCP/UPL dollars may require DSH flexibility to be retained.
- (C) Reflects release of the \$96.1M trust fund reserve.
- (D) If CBRC/FQHC is not available after June 30, 2005, CBRC revenues, net of AB 915 backfill, will decline by \$57.8M, \$60.7M, and \$63.8M for FY's 05-06, 06-07, and 07-08, respectively.
- (E) Per State DHS, CMS may "re-base" the Medicaid Upper Payment Limit (UPL) beginning FY 05-06. The impact on County DHS of this potential action is estimated to result in reductions of Medicaid revenues from FY 02-03 levels. These estimated reductions totaling \$374.6M, are \$97.6M, \$124.9M, and \$152.1M, for FYs 05-06, 06-07 and 07-08, respectively, and are not reflected in the above. When the UPL is fully implemented, the value could be as high as \$198.0M. There is also a non-hospital clinic UPL, which the State has yet to compute, that could further reduce County DHS' Medicaid revenues. Further, the full realization of the Scenario III savings, future State and Federal Budgets, accelerating healthcare inflation, and the President's Medicaid Relief Proposal create significant uncertainty regarding the Department's Fiscal Outlook.
- (F) These amounts are potentially improved by managed care supplement and DSH flexibility proposals currently being worked on with the State and Federal governments.
- (G) Reflects a beginning fund balance of \$366.9M less the \$245.9M fund balance included in the FY 02-03 Supplemental Budget Resolution.
- (H) Reflects a beginning fund balance of \$384.9M less the \$31.8M fund balance included in the FY 03-04 Supplemental Budget Resolution.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK
OCTOBER 27, 2003 THROUGH JANUARY 20, 2004

	Fiscal Year / \$ In Millions					
	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	Total
(1) Revised Estimated Cumulative Year-End Fund Balance / (Shortfall) - October 27, 2003	\$ 327.5	\$ 308.1	\$ 22.5	\$ (320.6)	\$ (724.7)	\$ (724.7)
(2) Reduce assumed salary and variable EB COLA from 3% per fiscal year beginning in FY 04-05 to 2.5% on January 2005 and January 2006 based on Board action of December 16, 2003. Assumes 3% COLA for January 2007 and forward per CAO.	-	23.8	31.5	35.7	36.5	127.5
(3) Reduce variable employee benefits costs for the current fiscal year based on updated projections as of October 31, 2003 and FY 04-05 and forward based on the FY 04-05 DHS Budget Request.	16.5	6.5	6.5	5.2	5.2	39.9
(4) Reduce fixed employee benefits costs for the current fiscal year based on updated projections as of October 31, 2003 and FY 04-05 and forward based on the FY 04-05 DHS Budget Request.	6.3	1.1	1.1	1.1	1.1	10.7
(5) Defer the closure of Rancho Los Amigos NRC to June 30, 2005.	-	(55.7)	-	-	-	(55.7)
(6) Defer the closure of LAC+USC 100 beds to June 30, 2005.	-	(13.7)	-	-	-	(13.7)
(7) Defer the outsourcing of OMC to June 30, 2005.	-	(8.0)	-	-	-	(8.0)
(8) Increase infrastructure investment in the FY 04-05 DHS Budget Request including Emergency Medical Systems, Performance & Quality Management, Centralized Contract Monitoring, Facilities Management, Human Resources, Capital Projects Administration, and Revenue Management	-	(15.0)	(7.2)	(7.4)	(7.6)	(37.2)
(9) Reduce projected annual growth in Vehicle License Fees from 2.4% to 1% beginning in FY 04-05 per the CAO on January 15, 2004	-	(2)	(10.0)	(15.2)	(20.6)	(50.7)
(10) Add remaining CHP trust fund balance per the Auditor-Controller on December 17, 2003.	46.0	-	-	-	-	46.0
(11) Increase Office of Public Safety (OPS) costs per information received from OPS on January 2, 2004.	-	(5.3)	(5.3)	(5.3)	(5.3)	(21.2)
(12) Adjust Medicare based on estimates received from Program Audits & Reimbursements received on December 11, 2003.	0.6	(3.2)	(4.4)	(5.0)	(5.0)	(17.0)
(13) Reduce medical malpractice costs for FY's 04-05 and forward based on updated projections received from CAO Risk Management on November 12, 2003.	8.2	2.1	2.1	2.1	2.1	16.6
(14) Adjust HSA Information Systems spending for the current fiscal year per estimate received on December 22, 2003 and FY 04-05 and forward based on the FY 04-05 DHS Budget Request.	10.0	(12.8)	(3.9)	(4.0)	(4.1)	(14.8)
(15) Adjust SB 855 funding per Fiscal Programs on December 31, 2003.	-	(2.1)	3.0	6.7	3.0	10.6
(16) Adjust Insurance revenue for one-time change from cash basis to accrual basis accounting as required by the Auditor-Controller.	8.5	-	-	-	-	8.5
(17) Decrease capital project costs per Health Facilities Planning Services on January 5, 2004.	1.3	0.7	0.7	-	-	2.7
(18) Reduce Clinical Resource Management costs for the current fiscal year based on Dr. Guterman's report received on December 3, 2003 and increase FY 04-05 based on the FY 04-05 DHS Budget Request.	15.7	(3.5)	(3.5)	(3.5)	(3.5)	1.7
(19) Adjust the AB 394 Nursing Staffing Ratio Costs for the current fiscal year based on estimates provided by the hospitals on December 1, 2003.	1.6	-	-	-	-	1.6
(20) Transfer a portion of the LAC+USC Transition/EMR costs from FY 03-04 to 04-05 based on estimates from LAC+USC received on December 3, 2003.	8.7	(8.7)	-	-	-	-
(21) Change in current fiscal year operating forecast received on December 1, 2003 / Other.	30.6	1.3	(1.6)	(2.7)	(5.7)	21.9
(22) Forecast improvement/(reduction) roll-forward	-	154.0	56.6	65.6	73.3	-
(23) Revised ⁽¹⁾ Estimated Cumulative Year-End Fund Balance / (Shortfall) - January 20, 2004	\$ 481.5	\$ 364.7	\$ 88.1	\$ (247.3)	\$ (655.3)	\$ (655.3)

Notes

- (1) Assumes Rancho Los Amigos NRC and LAC+USC 100 beds will be closed June 30, 2005. CBRC will be extended for each year beyond FY 04-05, and the SPCP Waiver will not be re-based.
- (2) Per the CAO, the reduction in VLF may be as high as \$14.3M, \$19.3M, \$24.5M, \$29.9M, and \$35.5M for FY's 03-04 through 07-08, respectively, for a total impact through FY 07-08 of \$123.5 million instead of the \$60.7 million shown above.
- (3) Represents current year surplus of \$17.0 million primarily related to less than anticipated Services & Supplies spending, prior year surplus of \$15.1 million primarily related to Medi-Cal and Medicare revenue, and other changes totaling a deficit of \$1.5 million. Amounts are primarily related to one-time changes in the current year and are not expected to be ongoing.
- (4) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$154.0 million in FY 04-05 is \$481.5 million - \$327.5 million from FY 03-04.

DHS Fiscal Outlook

Attachment D provides an update through January 20, 2004 of the Department's Fiscal Outlook. Attachment E is a high level summary of the key developments, and their fiscal impact, since our last update through October 27, 2003. The estimated cumulative shortfall through FY 07-08 has decreased from \$724.7 million to \$655.3 million. In the event that any of the following three events transpire, they could cause this estimate to increase once again, as follows:

	<u>\$ In Millions</u>
Estimated Cumulative Year-End Fund Balance/ (Shortfall) as of January 20, 2004	\$(655.3)
--Inability to Close/Transfer Rancho and Reduce LAC+USC Beds by 100 on June 30, 2005, or thereafter.	(308.2)
--Inability to Extend CBRC Revenues (or obtain FQHC approval) Beyond Current 1115 Waiver Expiration (June 30, 2005)	(182.3)*
--Federal "Re-basing" of SPCP Waiver	(374.6)
<u>Potential</u> Estimated Cumulative Year-End Fund Balance/(Shortfall) as of January 20, 2004	<u>\$(1,520.4)</u>

* Estimated net loss after AB 915 backfill.

DHS, along with the CAO, County Counsel and the County's Legislative Strategist, continue to pursue preventing these three events from transpiring.

Also, as mentioned in the Governor's Proposed Budget, the new State administration is seeking a Federal 1115 Waiver, under which to restructure the California Medi-Cal program. We were advised by the State's Medi-Cal Director on January 16, that the goal is to complete the restructuring design by May 2004 and to begin saving \$400 million per year Statewide beginning in FY 05-06. This restructuring, which is yet to be defined, may encompass the SPCP Waiver, which expires in December 2004, and could have a major impact on the Department's Fiscal Outlook.

Further, the Governor's Proposed Budget includes a large number of items, which are largely unquantifiable in terms of potential impact to us. We will continue to monitor the progress of these and advise the Board of significant developments.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS)
 FISCAL YEARS 2002-03 THROUGH 2007-08
 (\$ in millions)

Line #. Line #. A.	Board Decision Date	Planned Implementation Date	Status as of 12/22/03	PLANNED SAVINGS - LINE #. VS. FORECAST SAVINGS - LINE #. A.					
				2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
HOSPITALS									
1. 1. A.	Planned reduction of LAC+USC 100 beds Forecast savings	10/02	05/03	\$ 2,000 (b)	\$ 16,100 (c)	\$ 29,800 (c)	\$ 31,900 31,900	\$ 34,100 34,100	\$ 36,500 36,500 (q)
			Uncertain due to preliminary injunction						
2. 2. A.	Planned LAC+USC efficiencies Forecast savings	10/02	07/05	- -	- -	- -	20,100 20,100	20,700 20,700	21,300 21,300
3. 3. A.	Planned 16% efficiencies at MLK/D Forecast savings	06/02	05/03	2,800 (b)	20,900 20,900	46,200 46,200	61,900 61,900	63,800 63,800	65,700 65,700
4. 4. A.	Planned closure of RLANRC or alternate governance Forecast Saving (e)	10/02 & 06/03	07/04	- -	58,600 (p) 9,100 (c)	64,800 9,100 (c)	70,400 70,400	77,400 77,400	85,000 85,000
6. 6. A.	Planned conversion of HDH to a MACC Forecast Saving (e)	06/02	05/03	1,400 (b)	9,800 10,260	11,100 11,620 (f)	12,500 13,090	14,100 14,760	16,000 16,750
7. 7. A.	Planned capital cost avoidance at HDH Forecast Saving (e)	06/02	07/02	- (g)	2,000 -	0,900 -	- -	- -	- -
8. 8. A.	Planned restructure of psych services Forecast savings (e)	10/02 -	10/02 -	- 0,200 0,250	20,200 16,479 (h)	25,300 13,050	29,200 6,550	33,600 6,740	38,600 6,950
				Negotiations ongoing					
COMPREHENSIVE HEALTH CENTERS									
9. 9. A.	Planned CHC efficiencies Forecast savings (e)	10/02	05/03	3,700 (b)	23,300 7,946	24,000 16,480 (f)	24,600 16,970	25,300 17,480	26,100 18,000
HEALTH CENTERS									
<u>Northeast Area</u>									
10. 10. A.	Planned closure of 4 health centers Forecast savings	06/02	10/02	6,300 6,300	8,900 8,900	9,300 9,300	9,700 9,700	10,100 10,100	10,500 10,500
<u>Coastal Area</u>									
11. 11. A.	Planned closure of 1 health center Forecast savings	06/02	10/02	1,000 1,000	1,400 1,400	1,400 1,400	1,500 1,500	1,600 1,600	1,700 1,700
<u>Southwest Area</u>									
12. 12. A.	Planned closure of 4 health centers Forecast savings (e)	06/02	10/02	12,700 7,400	18,100 12,995	18,700 13,020 (f)	19,400 13,500	20,200 14,060	21,000 14,620
<u>San Fernando Valley Area</u>									
13. 13. A.	Planned closure of 2 health centers Forecast savings	06/02	10/02	3,200 3,200	4,500 4,500	4,700 4,700	4,800 4,800	4,900 4,900	5,000 5,000
<u>Antelope Valley Area</u>									
14. 14. A.	Planned 5% efficiency from AV/DHS Partnership Forecast savings	06/02	10/02	0,030 10/02	0,200 0,200	0,200 0,200	0,200 0,200	0,200 0,200	0,200 0,200
OTHER									
16. 16. A.	Planned PPP visit reductions Forecast savings	06/02	09/02	12,500 12,500	15,000 15,000	15,000 15,000	15,000 15,000	15,000 15,000	15,000 15,000
20. 20. A.	Planned Public Health reductions Forecast savings	06/02	10/02	6,700 7,500	9,200 7,730	9,400 7,960 (f)	9,700 8,200	10,000 8,450	10,300 8,700
21. 21. A.	Planned contract out of OMC Admin Forecast Saving (e)	06/02	05/03	2,300 (l) 2,300	8,000 -	8,000 -	8,000 8,000	8,000 8,000	8,000 8,000
				Negotiations ongoing					
22.	Planned cost/revenue adjustments (m)	10/02	07/03	-	25,700	41,600	38,600	38,600	38,600
SCENARIO III PLANNED SAVINGS TOTAL (n)				\$ 56,830	\$ 240,800	\$ 309,500	\$ 357,500	\$ 377,600	\$ 399,500
LESS: FORECAST SAVINGS AS OF 12/22/03				40,480 (o)	141,110	189,630	320,410	335,890	352,520
SAVINGS SURPLUS / (SHORTFALL)				\$ (16,350)	\$ (99,690)	\$ (119,870)	\$ (37,090)	\$ (41,710)	\$ (46,980)
LESS: COURT ORDERED ENJOINED SAVINGS				-	65,60	85,50	-	-	-
ADJUSTED SAVINGS SURPLUS / (SHORTFALL)				\$ (16,350)	\$ (34,090)	\$ (34,370)	\$ (37,090)	\$ (41,710)	\$ (46,980)

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS)
 FISCAL YEARS 2002-03 THROUGH 2007-08
 (\$ in millions)

Notes:

- (a) From projected budgets compared with FY 01-02 service level for each year.
- (b) The savings projections originally projected in FY 02-03 have been covered by the surplus from DHS' FY 02-03 operations. DHS' FY 02-03 final surplus was \$263.9 million.
- (c) Pending outcome of the litigation. This estimate will be updated when more information is available. \$9.1 million for Rancho represents the difference between \$58.6 million accelerated Rancho closure savings and \$49.5 million 191 bed FY 03-04 variable net operating cost.
- (d) Proposed and implemented under the January 2002 strategic plan. Therefore, these savings were already included in Health Services' June 2002 fiscal outlook.
- (e) Revised savings as of January 20, 2004.
- (f) The revised savings amounts for FY 04-05 and forward are calculated based on the ratios between the original savings and the revised savings for FY 03-04.
- (g) The CAO has suggested that DHS utilize the savings from the DHS funded projects in order to meet the targeted savings as outlined in the Proposed Savings Plan for HDH Capital Cost Avoidance. According to the CAO, the savings from the HDH Capital Cost Avoidance is not a savings to DHS.
- (h) The CAO Supplemental Budget Resolution includes an increase in net cost of \$9.7 million for psychiatric services restructuring to reflect a revised budgeted savings amount of \$10.5 million (original budgeted savings of \$20.2 million less a \$9.7 million increase in net cost equals revised budgeted savings of \$10.5 million) for that restructuring. (DHS is only targeting a \$3.7 million reduction, original budgeted savings of \$20.2 million less a \$3.7 million increase in net cost equals revised estimated savings of \$16.5 million) in their Fiscal Outlook to reflect potential positive negotiations with DMH.
- (i) Because this action item was proposed and implemented under the January 2002 Strategic Plan projected savings are not reflected in Scenario III totals. However, Health Services estimates savings of \$8.0 million annually, of which \$5.9 million for FY 02-03 was initially included in its June 2002 fiscal outlook. Additionally, the entire \$8.0 million annual savings was subsequently included in its FY 02-03 budget.
- (j) Since this action item was proposed and implemented under the January 2002 Strategic Plan, projected savings are not reflected in Scenario III totals. Additionally, Health Services did not include estimated annual savings of \$5.0 million in its June 2002 fiscal outlook. However, Health Services' subsequent fiscal forecasts, and its FY 02-03 budget, reflect the \$5.0 million annual savings.
- (k) Reductions dependant on facility reductions that are uncertain due to preliminary injunction and ongoing negotiations for 100 beds Reduction at LAC+USC, Closure of Rancho, Restructure psychiatric services, and Contracting out Office of Managed Care (OMC). Therefore, Health Services did not project savings for these proposals.
- (l) OMC is meeting the \$2.3 million target through existing FY 02-03 operational savings, even though the contracting out to LA Care has not happened yet.
- (m) Cost/revenue adjustments refer to revenues generated by facilities to be closed, which can still be collected by Health Services and distributed across the system.
- (n) Excludes one-time expenses such as costs associated with layoffs, facility closure costs, and facility transition costs. Health Services has not yet completely identified or quantified these costs but proposes that they could be partially paid for with Tobacco Settlement funds.
- (o) The revised Scenario III total excludes those items that were covered by surplus/savings from DHS' FY 02-03 operations.
- (p) Although not originally in Scenario III of the June 2002 DHS Strategic Plan, the Board approved a one-year acceleration of the Rancho savings on 06/23/03.
- (q) Does not take into account the opening of the LAC+USC replacement facility on July 2007.

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